DOCTOR OF PHILOSOPHY IN MANAGEMENT

EXPLORING EMERGING MARKET HETEROGENEITY

By

MAULI SONI

IIMB
तेजस्वि नावधीतमस्तु

भारतीय प्रबंध संस्थान बेंगलूर
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Mauli Soni

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Prof. Ananth Krishnamurthy
Chairperson
Doctoral Programme

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To Akhil, my strength and hope.

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Abstract

Emerging markets have garnered a lot of attention both in the business arena and in academic literature. The reasons for the interest in emerging markets range from expanding the firms' consumer base, diversifying supplier networks, and taking advantage of emerging markets' cost-benefits. In the last decade, many research scholars have made significant contributions to understanding emerging markets better. A common feature in the emerging market literature is the treatment of emerging markets as homogeneous entities. However, some studies (Johnson and Tellis 2008; Heinberg, Ozkaya and Taube 2018) indicate that this assumption of homogeneity of emerging markets might not be valid.

This thesis extends research on emerging markets and demonstrates that there is indeed heterogeneity between emerging market countries. Through two empirical chapters, the thesis identifies and establishes the features that give rise to the diversity in emerging markets. The thesis also examines the role that country characteristics (market heterogeneity, unbranded competition, socio-political governance, and resources and infrastructure) play on firm performance in emerging markets.

Essay 1 (Chapter 2) establishes the nature of heterogeneity that exists between emerging markets. The essay examines emerging markets in the backdrop of luxury brands, contingency theory, and motivation-ability-opportunity framework. It borrows market characteristics from Sheth (2011) that differentiate emerging from developed countries. Prior research demonstrated in the luxury industry that there are differences in firm performances between developed and emerging markets (Shukla and Purani 2012;

Shukla 2012). Hence, it is reasonable to test if the theoretical boundaries set by marketplace characteristics lead to consumption differences in what is supposed to be a single type of market. Research also shows that culture does not highlight country-specific differences in luxury consumption between emerging markets (Shukla 2012; Hennigs et al., 2012; Shukla, Singh and Banerjee 2015). This makes it imperative for market-place characteristics to be brought into forefront to test for market heterogeneity.

Empirical analysis of 119 luxury brands operating in 19 emerging markets demonstrates the differential and heterogeneous effect that market heterogeneity (positive), unbranded competition (negative), socio-political governance (negative), and resources and infrastructure (positive) have on luxury brand performance. Furthermore, two moderators – financial freedom (policy-based) and marketing efforts (firm-based) – are utilized to explore how firms can navigate the heterogeneity imposed by market diversity. The study makes contributions at multiple levels. It provides the ability for researchers and practitioners to differentiate between two emerging markets through their structural characteristics. The study also identifies market characteristics as a critical set of antecedents to luxury brand purchase—the asymmetric effects of the two contingency variables guide practitioners.

Essay 2 (Chapter 3) examines how firms can mitigate the challenges created by the heterogeneity imposed by structural characteristics of an emerging market. It also steps away from using a specific category of products to generalize findings across industries. Firms function through their capabilities. Their capabilities fundamentally explain their performance variations (Vorhies and Morgan 2005; Narasimhan, Srinivasan and Sudhir 2006). Firms are expected to match their capabilities to a marketplace's changing dynamics for superior performance (Morgan, Vorhies, and Mason 2009). The hypotheses are built on resource-based theory (Wernerfelt 1984), dynamic capabilities (Teece, Pisano and Shuen 1997), and contingency theory. Moderating effects of market characteristics on capability performance link are also tested. The empirical study is based on 105 multinational firms and 34 countries (17 emerging and 17 developed).

I find that capabilities have different effects on firm performance in developed vis-à-vis emerging markets. The impact of capabilities on firm performance is also moderated by market characteristics in emerging markets. The results indicate that the effects of marketing, R&D, and operational capabilities are higher in emerging markets than in developed markets. Also, different market characteristics affect each core capability's contribution to firm performance in a distinct manner. This makes it imperative for firms to conduct a specific strategic analysis before entering a market. For example, socio-political governance negatively influences the effects of marketing capability on performance but positively impacts the effects of R&D capability on performance. The essay contributes to the theory of dynamic capabilities and resource-based view by providing an extension (and differential effects) of the capability performance link in emerging markets. It also introduces a new set of moderators – market characteristics – to these theories and indicates how emerging market heterogeneity affects capability utilization. By integrating capabilities with marketplace characteristics in emerging markets, the study also provides insights into how capabilities can lead a firm to make informed decisions for market entry and navigation.

Both essays work towards establishing emerging market heterogeneity and the effects of heterogeneity on firm performance. The decision-making process related to the internationalization of firms can benefit if they do not treat emerging markets as homogeneous.